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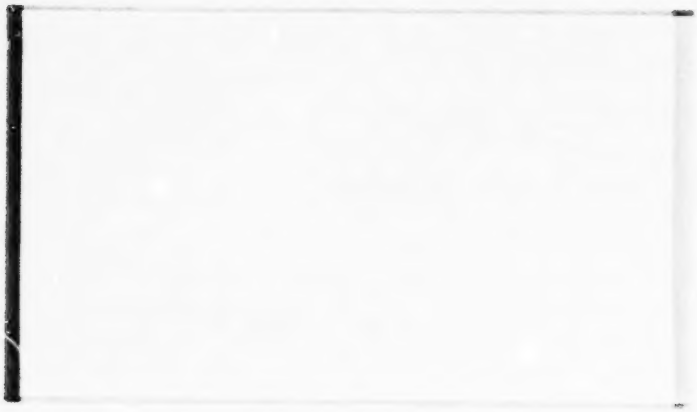

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POLICY PAPER ON UNIVERSALITY AND SOCIAL POLICY

A Response to
the Federal Government's
Child and Elderly Benefits
Consultation Paper

by the

Social Planning Council
of Metropolitan Toronto

March 1985

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SUMMARY OF RECOMMENDATIONS

The Federal Government Consultation Paper

1. The federal government consultation paper, Child and Elderly Benefits, endorses the principle of universality with respect to the existing family allowance and old age pension programs, the continued application of income-testing with respect to the receipt of the refundable child tax credit and the guaranteed income supplement for the elderly, and endorses the principle that any savings stemming from changes in the elderly and child benefit systems should not be applied to the reduction of the federal government deficit. The consultation paper sets an historical precedent in including discussion of tax benefits associated with the two systems. It proposes that the entire elderly benefit system remain intact for the present.

2. Two options are proposed for the child benefit system. However, we certainly do not think that the two options proposed exhaust the possibilities for change, even in the immediate future. Other options are therefore suggested for consideration

3. Option 'A' involves the elimination of the child tax exemption, generally acknowledged to be the most regressive feature of the current child benefit system in the sense that benefits vary inversely with income, an increase in the Child Tax Credit from the current $367 per child to $595 per child and a reduction in the income threshold above which the credit begins to be reduced from $26,330 to $20,500. Option 'B', which the

federal minister of National Health and Welfare seems to prefer, would see the child tax exemption reduced to $240 from $710 per child, family allowance payments reduced from $31.27 per child to $20 per child per month, the child tax credit increased to $610 per child and the threshold at which the level of the credit begins to be reduced to $25,000 from $26,330. Option 'A' would result in net saving to the federal government of $80 million and in $330 million in increased revenue for the provincial governments. Option 'B' would result in additional revenue to the federal government of $130 to $150 million.

4. The federal government appears to prefer option 'B'. Option 'A', it is argued, results in too great a reduction in net benefits for middle income families and in $330 million additional revenue for the provinces that is not available for redistribution inside the social affairs spending envelope. There are so many possible options and variations in these options available, however, that neither of these liabilities should be seen as immutable.

5. Of the two options, 'A' has the most to be said for it, mostly because it would result in the total elimination of the child tax exemption. In arguing for the total elimination of the child tax exemption it is instructive that from 1942 to 1944, a period of stress in which the federal government had to assure that more resources were available for low and moderate income

families, the child tax exemption, a feature of the Canadian income tax system since 1918, was temporarily suspended and replaced by a child tax credit. We feel that the total elimination of the child tax exemption would also lead more naturally to a more thorough examination at a future date of other tax expenditure features of both the personal and corporate income tax systems.

6. While it is true that the additional revenues flowing to provincial governments are not available to the federal government, there are so many points at which the federal and provincial governments relate to one another fiscally, that this can be addressed. We note that cash transfers to the provinces by the federal government are in constant flux and that the funding arrangements for Established Programs Financing can be renegotiated in 1986.

7. Regarding the impact of Option 'A' on middle income families, this arises almost entirely from the fact that the threshold level at which the full child tax credit is paid would be lowered to $20,000. Such an extensive reduction is not necessary.

8. We would also urge that alternatives to increasing the child tax credit also be considered. The child tax credit, certainly as it currently exists, has at least two negative attributes that need to be rectified. First, it is paid only

once a year. As the amount increases, it becomes increasingly important to address this liabililty. Secondly, a large part of the child tax credit designated for low income families is captured by tax discounters. We urge that this practice be legislatively stopped.

9. This Council supports program changes which would see the total elimination of the child tax exemption, as proposed in the federal government's Option 'A', but the rechanneling of the resulting increased revenues into an increase in family allowance payments of 50 per cent more than currently, or about $45.00 per child per month, after which payments would continue to be indexed to the cost of living. We also recommend that the threshold income level at which the full child tax credit is paid be re-indexed to the cost of living. The de-indexation of this threshold is an excellent example of the gradual erosion that often attends selective, income-tested programs.

Other Recommendations

10. Implementation of any of the above options would amount to no more than minor tinkering with the existing income security system. Much more needs to be done to provide a sufficient income floor for Canadian families. The elimination of poverty amongst those least able to provide for themselves --

mostly children and the elderly -- should be the first priority in further changes in the income security system.

11. Regarding poverty amongst elderly individuals and families, this Council made numerous proposals to the federal Parliamentary Task Force on Pension Reform in 1983 and these are repeated below:

a. That maximum benefits under the Canada/Quebec Pension Plan be increased to a level equivalent to 50 per cent of the average industrial wage.

b. That benefits under the Canada/Quebec Pension Plan be placed on a sliding scale such that no individual would earn pension credits at less than half the maximum rate.

c. That the Old Age Supplement (OAS) be increased from its present level of approximately 14 per cent of average industrial wages to a level of 25 per cent of average industrial wages.

d. That the Canada/Quebec Pension Plan remain a universal, compulsory program.

e. That the above recommendations be implemented gradually over a period of 10 years.

f. That the guaranteed income for a single elderly person be set immediately at 70 per cent of that of a couple.

g. That the first priority for investing any accumulated Canada/Quebec Pension funds be national investment priorities, especially social housing.

h. That ways and means of providing inflation protection to Canadian pension plans be studied further with a view to not requiring employees to absorb all of the risk of inflation protection.

i. That the suggestions of the federal green paper regarding survivor's benefits be adopted.

j. That the suggestions of the federal green paper for mandatory splitting by spouses of earned pension credits be adopted.

k. That special income tax provisions for the elderly be eliminated as pensions are improved as per recommendations 'a' through 'f'.

Implementation of recommendations 'c' and 'i' would almost totally eliminate the need for the federal Guaranteed Income Supplement and the means-testing that recipients must endure.

12. Regarding child poverty, and especially the increase in child poverty that accompanied the 1982 recession, measures such as the reintroduction of dependents' allowances to increase unemployment insurance benefits for famnilies with children should be seriously considered. This Council intends to continue to develop ways and means of addressing the serious problems encountered by children whose parents become unemployed and/or work for very low wages.

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Introduction

1. In recent months the future of Canada's universal income security programs has become a matter of intense public debate in the media and in Parliament. Should payments, particularly the universal payment of family allowances to mothers with children under 18 years and the universal payment of Old Age Security pensions to all persons aged 65 years and over (based on length of residence in Canada), be made to all of those qualified, regardless of income or wealth?

2. The Minister of Finance's Economic and Fiscal Statement of November 8, 1984, and the accompanying document, A New Direction for Canada: An Agenda for Economic Renewal, established the grounds for the current debate. In the Agenda document the Hon. Michael Wilson insisted that social programs must be redesigned, subsequently to be based on the twin criteria of social responsibility - defined to mean that scarce resources should be diverted first to those in greatest need - and of fiscal responsibility - defined to mean that the first priority of government expenditures must be to provide immediate employment opportunities. Several options, including but not limited to, curtailing payments of current universal benefits to middle and upper-income Canadians were put forward by the Minister. Other options included: 1) phasing out special tax exemptions, the most regressive components of the current child and elderly benefit systems; 2) imposing a special mechanism to recover benefits from those Canadians not in need of the universal payments; and 3) reducing, but not eliminating, benefits for middle and high income

families. The Agenda document promised that Canadians would be consulted prior to any final choice of options and prior to the next federal budget, tentatively scheduled for April 1985, when the government's policy on the future of universal payments would be announced.

3. The Agenda document sparked one of the more intensive social policy debates in recent Canadian history, although it is now apparent that the Minister of Finance did not have the full support of his government. By early January 1985 the Prime Minister had announced that universal payments would continue and that one of the other options presented in the Agenda document would have to be chosen to achieve governmental objectives.

4. Subsequently, on January 15, 1985, the government's consultation paper, Child and Elderly Benefits, was published by the Hon. Jake Epp, the Minister of National Health and Welfare. Thus, one of the most controversial aspects of the debate has been set aside, at least for the moment.

5. The consultation paper proposes to leave unaltered all benefits and programs with respect to the elderly. This decision is based on the consideration that people must plan their income needs in retirement many years in advance. In addition, any changes in elderly benefits should be made in concert with reforms that may be made soon in Canada's federal and provincial retirement pension systems.

6. The consultation paper proposes two options with respect to child benefits and programs, summarized in Table 1 below.

Table 1

	1985 Benefits	Proposed Post-Budget Benefits	
	Current	Option 'A'	Option 'B'
Family Allowances ($ per month per child)	$31.27	$31.27	$20.00
Child Tax Exemption ($ per year)	$710.00	nil	$240.00
Child Tax Credit ($ per year)	$367.00	$595.00	$610.00
Threshold Level for Full Child Tax Credit ($ income per year)	$26,330.00	$20,500.00	$25,000.00

Source: Government of Canada, Child and Elderly Benefits Consultation Paper (January 1985).

7. Although the debate on universal social allowances seems close to resolved, the broader issues raised by it have not had a thorough airing. The consultation paper is a milestone in Canadian public policy discussion in that it considers child and elderly benefits paid directly to recipients, which are usually progressive in terms of their distributional impact, and the child and age-related features of the income tax system, which are usually regressive with respect to their distributional impact, as part of a single system. The inclusion of tax expenditure considerations is a major contribution to the debate. Accordingly, the Board of Directors of the Social Planning Council believes that it is important to clarify the underlying

philosophical, social and political arguments in favour of the maintenance of universal social programs. We are therefore publishing the following policy paper in an effort to contribute to the public discussion of the universality issue. That the universality issue and other matters relating to the social security of Canada will be on the public agenda for some time to come makes it imperative that the Social Planning Council take a position. It is also important for Canadians to tell their federal government how they feel with respect to the two options presented in the consultation paper or to suggest variations in these options.

An Introduction to Universality in Social Programs In Canada

8. This recent focus on universality marks a major transformation in Canadian social policy discussion. Until recently, whether old age pensions, family allowances or the extension of unemployment insurance coverage to the entire work force were being discussed, debate focused on the social benefits of universality.

9. Advocates of universality argued that universal programs marked a commitment on the part of the state to the income income security of all citizens, whether or not they met the particular categorical definitions of need inherent in means-tested narrowly focussed programs. In this sense, universal programs like family allowances and old age security are fundamental to an income security system in which access to income

support is a right, and not the consequence of satisfying various qualifying or eligibility criteria.

10. In addition, they argued that universal programs avoided the stigma which follows from distinguishing between eligible and non-eligible, needy and non-needy, individuals. Under the family allowance and old age security programs benefits are payable to, or on behalf of, virtually all those who meet the age criteria. Accordingly, no invidious distinction can be drawn which would identify or categorize recipients as second class, less successful, or "losers". The importance of this could be seen from the well-known prejudices and biases regarding recipients of other income security programs, notably social assistance.

11. Finally , it was argued, because the eligibility for benefits under such universal programs was so straightforward, the administrative costs were low.

12. But in the mid-1980s, the question of selectivity is back again, although in a new guise. Now, the debate revolves around the supposed economic advantages of a move to selectivity, which include the possible reduction of overall program costs and, it is claimed, a redirection of program benefits away from those who currently receive such benefits but don't need them, and toward those most in need. Although the consultation paper is explicit that any reduction in expenditures will remain within

the social affairs spending envelope for reallocation or enhancement of benefits paid, there is no question that a major economic appeal of a move to selectivity is the prospect of a reduction in the federal deficit.

13. Unfortunately for most Canadians, the question of the deficit obscures the arguments around a move to selective social programs. The result is that dislike of the deficit and, by implication, of vast and wasteful spending by self-serving politicians and bureaucrats, tends to translate into support for scrapping universality in the provision of social programs. What the question hides is the fact that a large part of the current deficit, which would continue to occur even with the greater government revenues associated with economic growth, stems from tax expenditures and from a multitude of income exemptions and deductions, most of them created in the past decade and many of them regressive in that benefits are inversely proportional to income. Now the elderly and those with children are being asked to take benefit cuts so that government budgets may be balanced. A major shortcoming in the recent public debate and in the federal government consultation document on child and elderly benefits is that the focus is too narrow. Some elderly households and some families with children will be expected to give up benefits that will go to other elderly households and families with children. No consideration is being given the possibility that non-elderly households and families with no children might make sacrifices for those in greater need.

What is Universality?

14. Each time the debate over universality reaches the level of public debate, the meaning of the term needs to be rediscovered. Anything from a program in which anyone receives a payment to a program in which anyone may be paid if he or she meets eligibility criteria has been described as universal. The definition proposed as a basis for discussion in this policy paper is that the gross amount paid (prior to taxes) does not decrease as the income or wealth of the recipient increases. On the other hand, a selective program is one in which the gross amount paid is adjusted according to the income or wealth of the recipient.*

15. In the recent debate over universality of income security programs, a second criterion appears to have been added. This is that the delivery of benefits is not paralleled by tax measures designed specifically to recover such benefits. A program in which benefits were delivered without regard to the income or wealth of the recipient, but which were accompanied by a program-specific "tax-back" on program benefits, would not qualify as "universal".**

Social Citizenship and Evolution of Universal Social Programs

16. The strongest political argument in favour of universal

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*M. Mendelson, Universal or Selective? The Debate on Reforming Income Security in Canada (Toronto: Ontario Economic Council, 1981), p.3.

**Canada, House of Commons, Hansard (December 21, 1984).

social programs is the integral role they play in sustaining a sense of social citizenship. The introduction of the universal income security programs which exist today was a result of the experience of the Great Depression and World War II. Confronted with the chaos and destruction wrought by the war, the governments of the Allied Nations recognized that the popular appeal of fascism and other totalitarian forms of government was in part a reaction to the hardship and suffering experienced by millions during the course of the Depression. As a consequence, the Allied leaders acknowledged that the adequate protection of citizens against social hardship makes a vital contribution to the defense of democracy against its own internal strains. The right to improved social security was enshrined by President Roosevelt and Prime Minister Churchill in the Atlantic Charter in 1941 when they proclaimed that,

> "They hope to see established a peace which will afford to all nations the means of dwelling in safety within their own boundaries, and which will afford assurance that all the men in all the lands may live out their lives in freedom from fear and want."

17. This commitment added a new dimension to the concept of liberal democratic citizenship, the dimension of social citizenship. The idea of citizenship in a modern liberal democracy is realized to the extent that all members of the national society enjoy a body of civil, political and social rights. The particularly social dimension of these rights includes a whole range from the right to a modicum of economic welfare and security to the right to live the life of a civilized being according to the standards prevailing in the society.

18. The expansion of citizenship rights to incude this social dimension was a long process which stretched from the end of the nineteenth through to the middle of the twentieth century. The process was marked by continuous strife and political struggle. The commitment by the major industrial nations to a policy of maintaining high levels of employment and income, coupled with the gradual introduction of a range of social programs in the areas of retirement income, family benefits and health care, signified the culmination of the process. A broad political consensus has come to exist throughout the industrial nations that this right to protection against want in childhood, ill health or old age constitutes a vital component of citizenship in a modern liberal democracy.

19. An attack on the element of universality in current social programs would involve a fundamental transformation of this dimension of citizenship. Those groups in our society, such as the voluntary social service sector, who have struggled for decades to win these rights, will not stand by and witness their erosion in the name of some new economic reality.

A Short History of the Universal Income Security Programs In Canada

20. Family allowances as we now know them were first proposed by Leonard Marsh to the Advisory Committee on Reconstruction in February 1943 as part of a seminal report that has

since become known simply as the "Marsh Report."* Marsh called them children's allowances and asserted that children should have an unequivocal place in social security policy. While Marsh recognized that children in low income families had the greatest need, his argument for universality of benefits was based on the "narrow margins for the families of many parents whose earnings by labour market standards would be regarded as reasonable or moderate."**

21. The federal government announced the family allowance program in 1944, only a little more than a year after the tabling of the Marsh Report. Benefits ranged from $5 to $8 per month, depending on the age of the child, averaging about $6.00. They were introduced in 1944 for four principal reasons: (1) to provide financially for the basic needs of children; (2) to maintain purchasing power in the face of an anticipated post-war economic recession; (3) to undercut electoral support for the socialist CCF party, which by 1944 had become the government in Saskatchewan and the official opposition party in Ontario and British Columbia; and (4) to provide pre-election benefits to families whose wage gains were still limited by wartime wage controls.

22. In the early 1970s, considerable discussion of restructuring the Family Allowance program followed the 1970

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*L. C. Marsh, Report on Social Security for Canada (Ottawa: King's Printer, 1943), pp.87 - 91.
**Ibid, p.87.

publication of then then Minister of National Health and Welfare's White Paper, "Income Security for Canadians". Among other things, the White Paper argued for delivery of family allowances only to families below an income ceiling. Ultimately, this proposal died on the Parliamentary order paper, and it was abandoned following the 1972 general election.

23. In 1978, the federal government introduced the refundable Child Tax Credit program. In order to finance this initiative, family allowance benefits were reduced to their 1974 level, a move that prompted speculation that a restructuring of the program would follow. Despite subsequent cutbacks in real benefits that followed from the "6 and 5" program, the program was left intact.

24. The Old Age Security program evolved gradually from an initial retirement income progam that began in 1927 and paid means-tested benefits of $20/month to British subjects aged 70 or over who had resided in Canada for at least 20 years. In its present form, which dates from 1952, universal benefits are paid to Canadians 65 year and over. In the first quarter of 1985 benefits were $273.80 per month.

25. In 1965 the Guaranteed Income Supplement was added to the elderly benefit system. The elderly are now the only group to receive a guaranteed minimum income from the federal government. Five provinces add their own guaranteed income payments to the federal G.I.S. In Ontario it is called GAINS.

Taxes and Universality

26. That income security programs involve both transfers and taxes is fundamental to understanding the current debate. To begin with, family allowance and Old Age Security benefits are taxable and, given the moderate progressivity of the personal income tax system, rich recipients pay back increasing proportions of their gross benefits in taxes. Conversely, low-income recipients pay back a smaller proportion of benefits in tax. Considered on a tax-transfer basis, universal programs are generally progressive. Net benefits are highest at low-income levels and lowest at high-income levels. There is no necessary incompatibility between universality and making sure the rich do not benefit from universal programs like family allowances.

27. The key implication of looking at these universal income security programs in tax-transfer terms is that the central question becomes, not selectivity, but the fairness of the tax system. While affluent Canadians who receive family allowances or old age pensions theoretically pay back a considerable proportion of their benefits in taxes, it is also true that many affluent Canadians are able legally to reduce the tax they must pay as a result of tax loopholes, exemptions and preferences. In Ontario alone, almost 3,000 people with incomes over $50,000, 95 of them with incomes averaging $437,000, paid not one cent of income tax in 1981. If reducing the deficit is the key concern, surely the least painful and most obvious method is to increase federal revenues by making sure such individuals pay a reasonable

rate of income tax. The same argument can be applied to Canada's large corporations.

28. In 1984 the federal government paid out $2,360 million in family allowance payments, about 0.7 per cent of Canada's gross national product, and $8,065 million in old age pensions, about 2.4 per cent of gross national product. The two programs together totalled 3.1 per cent of gross national product. If one adds the tax revenue cost of the child and elderly benefit systems the total cost of the child system in 1984 reached $4,095 million, about 1.2 per cent of GNP, and the cost of the elderly benefit system, including the guaranteed income supplement, reached $11,245 million, or 3.4 per cent of GNP. The two systems together totalled 4.6 per cent of gross national product.

29. By comparison the 1981 federal budget estimated that total tax expenditures in the personal income tax system were $13.8 billion in 1979. This would be $20.4 billion if costs to provincial treasuries were added, or about 9.9 per cent of the 1979 gross national product and over twice the magnitude of the child and elderly benefit systems together.

30. Corporate tax expenditures may be added to the magnitude of tax expenditures with respect to the personal income tax system cited above. In 1980 for instance, corporations paid 18 per cent of their total profits in taxes, almost exactly one-

half the nominal rate of 36 per cent in effect, and representing $8 billion, or 3.4 per cent of GNP, 4.2 per cent when tax costs to provincial treasuries are included. From 1972 to 1980 these tax expenditures increased by 400 per cent, twice the rate of increase for the gross national deflator (the equivalent of the consumer price index for the gross national product), which was 215 per cent.

31. Corporate and indivual tax expenditures together total over 14 per cent of GNP, over four times total expenditures on the universal income security programs and probably 15 to 20 times the magnitude of universal income security payments received by Canadians with per capita incomes above the average.

Cost-Effectiveness

32. The major argument against universality and for increasing selectivity in income security payments is the relative cost-effectiveness of selective programs. In theory selective programs are more cost effective because a larger share of total benefits is directed towards those in greater need. This argument is no doubt true, but the magnitude of cost savings needs to be assessed carefully to determine whether a move towards selectivity would be worth its cost. Some of the gains from moving towards selectivity would be lost in increased administrative costs.

33. The administrative costs of Canadian social security programs vary considerably. The universal income security programs, family allowances and old age pensions, are associated with the lowest costs, less than one per cent of total expenditures. The administrative costs of family allowances are only a little over one-half of one per cent of program expenditures. An example at the other end of the spectrum in Ontario is municipal general welfare assistance, where administrative costs are about 17 per cent of allowances.

34. The Guaranteed Income Supplement for the elderly, the program whose structure, and therefore costs, might most closely resemble selective income security programs, costs $15 per person per year to administer. Assuming that the costs of a more selective family allowance program would approximate those of the GIS program, the move towards selectivity would see total administrative costs increase from about $13,000,000 to $97,000,000, an increase of $84,000,000. While the total savings of moving towards greater selectivity in family allowance payments would undoubtedly result in greater savings than this, one would still have to justify the increased administrative costs, from just over one-half of one per cent to over four per cent of program expenditures. Selectivity could result in more government, not less.

35. The above arguments can also be applied to the OAS program. Administrative costs might increase from $50 million to over $200 million. In the case of a move towards selectivity

with respect to the OAS program, such an increase in administrative costs would be harder to justify, as so few recipients are in the "affluent" income group. The federal government recaptures almost 20 per cent of family allowance payments in income tax revenues, while it recaptures only about six per cent of OAS payments. This is undoubtedly one of the reasons why the current government chose not to propose any changes in the elderly benefit programs in its January 1985 consultation paper.

Social Security and Economic Growth Are Linked

36. There is one other aspect of costs and benefits that needs to be considered seriously as part of the debate on universality and selectivity. That is the potential costs to the economy as a whole in the form of lower productivity that might be associated with a move away from universality of social benefits and especially with any major erosion of Canada's social security net. There is some evidence that the sense of social solidarity that exists in a real sense in modern industrial democracies contributes in a positive way, and by both direct and indirect means, towards economic growth.

37. The growth of a sense of social solidarity in the industrial democracies has been directly related to the extension of universal social programs associated with the postwar welfare state. Not surprisingly, the extent of this feeling of social solidarity varies significantly with the extent and range of universal social benefits enjoyed by the citizens of these coun-

tries. Traditional economic theories, such as these which the current Government of Canada seems to espouse in its document A New Direction for Canada: An Agenda for Economic Renewal, assume that the extension of social citizenship rights and the growth of a sense of social solidarity are inimical to the goals of economic growth and expansion. They imply a necessary trade-off between the economic incentives required to reward risk-taking and the security provided by universal social programs. Yet there is growing evidence to indicate that these assumptions are based upon an increasingly antiquated understanding of the dynamics of an industrial economy. This evidence suggests that enhancement of the sense of social solidarity may be positively correlated with overall rates of economic growth and improved productivity in manufacturing. The mechanisms through which this relationship operates are varied. Progressive labour market policies may lead to higher wage levels and better quality jobs which in turn lead to a more positive attitude towards change. In addition, a greater degree of social security with respect to layoffs, plant closures, the risk of unemployment and health and safety regulations can provide workers with a greater overall degree of job security, higher levels of job satisfaction, and thus contribute to higher levels of manufacturing productivity. This last factor is important in encouraging industrial workers to take a flexible approach in coping with industrial restructuring and the introduction of new technologies.

38. In light of the extensive changes currently underway in the restructuring of industry throughout the advanced econo-

mies, it is likely that a greater degree of flexibility and adaptability on the part of the industrial work force will be highly desirable qualities. These qualities are likely to be fostered by the creation of a greater sense of social solidarity rather than by the erosion of already existing universal social programs. As opposed to the piecemeal dismantling of universal social programs currently contemplated by the federal government, a more positive direction for social policy would envisage ways of more effectively integrating social programs into the realization of the goals of economic growth and enhanced productivity.

39. In an era of rapid economic change and industrial restructuring, the ease with which the labour force adjusts to changing skill and occupational requirements will be an important factor in determining our success in adjusting to new realities. The role of social policy in facilitating this adjustment will be critical. The maintenance of broad-based universal social programs will provide workers with a sense of economic security, knowing that their most elemental needs will be sastisfied. Improved social policies which tie plant closing and layoff legislation and unemployment insurance more effectively into innovative retraining progams to foster labour mobility will further ease the process of adjustment.

40. The key to economic success in our changing industrial environment is the recognition that economic and social policy complement each other; social security fosters economic growth rather than inhibits it. Our collective goal must be the

extension of social citizenship and a fostering of social solidarity, not their denigration.

Who Gains and Who Loses from Greater Selectivity?

41. Reduced recapture of payments from the income tax system and increased administrative costs are just two considerations to be weighed in the decision to move away from universal income security programs. The issue is really whether or not the move to greater selectivity is pursued at too great an expense in social cohesion, harmony and individual dignity? It may even be possible to achieve selectivity without stigma, but there is one more fundamental question to be addressed before a decision to move towards greater selectivity can be made, and that is which groups - which parts of the income spectrum - gain and which lose? Leonard Marsh gave as one of his major reasons for recommending in 1943 that family allowances be universal the fact that so many families, though they received average or above average wages and salaries in the work force, lived at the margins, and he felt it wrong socially and inadvisable politically to discriminate against these families.

42. The same issue has arisen with respect to the consultation paper, Child and Elderly Benefits, published by the federal government in January 1985. The two specific options outlined therein for the child benefit system would see a reduction of net benefits for families with incomes over $23,000. The immediate response of both the opposition political parties

in Parliament and of the media was that it was largely middle income families that would lose if either of the two specific options for change were adopted. The Government's response was that 80 per cent of the redistributed funds to be made available to lower income families would come from families in the upper two-fifths (quintiles) of the overall income distribution.

43. Both sides in this debate may be correct. The debate itself amply illustrates the confusion over income distribution in the public mind. Simply put, family or household incomes that are average for the nation as a whole are well below average for families with children. A family of four with a total income of $23,000, the cut-off above which the federal consultation paper proposes that net child benefits would be reduced, is not much above the Statistics Canada poverty line for a family of that size, and its members have only one-half the per capita income of a childless couple with the same income.

44. Let us review the income distribution of Canadian families more closely. Table 2 portrays 1984 estimates of median and upper limits of the lowest and second fifth (quintile) of the income distribution for Canada and for the Toronto Census Metropolitan Area. As can be seen, the upper income threshold for the lowest income quintile for families of four (2 parents, 2 children) was almost $23,000. For Metropolitan Toronto, and presumably for other large urban centres as well, the upper limits for the lowest income quintile was estimated to be nearly $27,000, or 18 per cent greater. At $40,000 income, which for

Toronto would be the upper limit of the second quintile for four person - 2 parents and 2 children - families the net loss of benefits under the option favoured in the federal government consultation paper would be about $280. Thus families whose income levels are well below the median for four person families, but which are above the overall median for all families, would receive reduced child benefits. We estimate that over 40 per cent of all families that would lose benefits under the consultation paper proposals would be families with incomes below the median level for families with children.

Social Security and Poverty

45 One objective of social security and of a social welfare system is to reduce the incidence of, and/or eliminate, poverty. The Canadian social security system already provides close to the lowest benefits of any western industrial nation. Data published by the Organization for Economic Co-operation and Development (O.E.C.D.) in December 1984, showed that 10.8 per cent of Canada's total income was transferred through the social security system.* This includes unemployment insurance, social assistance programs (welfare) and other income transfer programs, mostly in the the child benefit and elderly income support systems. Canada ranked sixth out of the seven major countries, trailed only marginally by the United States.

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*Cf. The Toronto Star (December 10, 1984), p.A-1.

Table 2

ESTIMATES OF 1984 INCOMES - MEDIAN AND
UPPER UNITS OF LOWEST AND SECOND INCOME QUINTILES
-- FOR USE IN PUBLIC DECISION-MAKING

	CANADA	TORONTO CMA
	$	$
MEDIAN HOUSEHOLD INCOME		
1 Person Households	13,033	16,923
2 " "	26,562	31,336
3 " "	33,234	39,209
4 " "	36,391	42,993
FIRST (LOWEST) QUINTILE THRESHOLD		
1 Person Households	6,527	7,722
2 " "	13,248	15,629
3 " "	19,114	22,550
4 " "	22,775	26,907
2ND QUINTILE THRESHOLD		
1 Person Households	9,607	13,293
2 " "	21,800	25,718
3 " "	28,508	33,633
4 " "	32,256	39,289
MEDIAN ECONOMIC FAMILY INCOME	32,551	38,402
MEDIAN HOUSEHOLD INCOME	28,823	34,039

Source: Statistics Canada, Cat. 13-207, Income Distribution by Size in Canada, 1981, 1982 and 1983 (preliminary).

46. The adequacy of social security programs can be measured by the extent to which they prevent a rise in the occurrence of poverty or low incomes as marketplace incomes decline, the extent to which elderly Canadians entering retirement are able to maintain incomes in line with community living standards, the extent to which elderly Canadians already in retirement are able to maintain adequate incomes upon the death of a spouse, and the extent to which families with children are able to maintain total family income above the poverty level when jobs and marketplace income are lost. On all of these measures, the Canadian social security system is inadequate.

47. The Special Senate Committee on Poverty published its report in 1970. Between 1970 and 1980 the incidence of poverty amongst families in Metropolitan Toronto, as shown in the decennial Census of Canada, declined only from 13.4 to 13.2 per cent. The incidence of poverty amongst unattached individuals, mostly elderly, declined by only a slightly larger proportion, from 35.6 to 33.6 per cent. Long-term progress towards the elimination of poverty has been slow indeed, and pre-1982 data do not include increases in the incidence of poverty brought about by the recession that peaked in 1982 and long-term increases in rates of unemployment.

48. Statistics Canada data for Ontario, portrayed in Table 3, show that the incidence of poverty for families with children aged under 16 years increased from 12.5 per cent in 1981

to 16.3 per cent in 1982, an increase of close to one-third in just one year. In the case of families with four or more children the increase in the incidence of poverty was nearly 50 per cent. Most of the increase in the incidence of poverty was child-related. The increase in the incidence of poverty from 1981 to 1982 for families without children under 16 age was 2.3 per cent, while there was actually a decline in the incidence of poverty amongst unattached individuals during this period.

49. The recession was harder on female-headed families, by definition almost always single parent families, than on male-headed families, almost always two-parent families. After adjusting for inflation, the incomes of female headed families for 1982 dropped by 11 per cent from 1981, while for male-headed families the corresponding decrease was only three per cent. The reason why female-headed families were so much more vulnerable to the recession is easy to diagnose. When a single parent family head becomes unemployed, in addition to any savings, unemployment insurance or social assistance become the only means of sustaining the family. When the head of a two parent family becomes unemployed, in addition to unemployment insurance benefits, the second parent can also seek employment. In a 1984 survey of unemployed fathers Social Planning Council researchers found that this is what occurred in over 80 per cent of cases where the mother did not work for wages and salaries prior to the father becoming unemployed.

Table 3

NUMBER OF CHILDREN AGE 0 - 15 IN ONTARIO
LIVING IN POVERTY* 1981 - 1982

Number of Children 0 - 15 Years in Economic Family	1981 Per Cent Poor Families	1981 No. and % of Children 0 - 15 years in Poverty	1982 Per Cent Poor Families	1982 No. and % of Children 0 - 15 years in Poverty
1 Child	11.5%	58,038 (21%)	15.2%	77,114 (21%)
2 Children (0 - 15)	11.3%	104,638 (38%)	14.5%	133,992 (37%)
3 Children (0 - 15)	16.8%	77,250 (28%)	20.8%	95,473 (26%)
4+ Children (0 - 15)	20.7%	38,106 (14%)	31.0%	57,022 (16%)
Total Families with Children 0 - 15 years	12.5%		16.3%	
Total Poor Children		278,032 (100%)		363,600 (100%)
Poor Children 0 - 15 as per cent of all Ontario Children 0 - 15 years		13.4%		17.5%

*Children in families with incomes below the Statistics Canada Low Income Cut-Offs.

Source: Estimates based on data contained in Statistics Canada "Income Distributions by Size in Canada" 1981 and 1982, Table 86.

50. What measures would have prevented this increase in the incidence of poverty amongst families with children? The child tax credit would not have sufficed, as it is currently paid in the year following low income. Only larger family allowance payments, which are paid monthly, or unemployment insurance benefits or social assistance payments, or benefits or payments that increased with the number of dependents, as did unemployment insurance benefits prior to 1975, could have prevented or reduced the spectacular rise in the incidence of child poverty that resulted from the 1982 recession and rising unemployment.

Previous Cutbacks in Family Allowances and Unemployment Insurance Benefits

51. Current discussion with respect to cutting back any payments, universal or not, should not be allowed to take place outside the context of previous cutbacks in these benefits. In 1974 the Minister of National Health and Welfare increased family allowances to $20.00, the first increase in almost 20 years. The new rates, following adjustment for inflation, were approximately equivalent to the rates first paid in 1945 when Canadian mothers received their first family allowance payments. The government of the day also indexed family allowance payments to the cost of living.

52. However, since 1974, the indexing formula has been suspended once, and in 1979 family allowance payments were reset

at $20.00 per month per child with most of the money saved (about 80 per cent) being channelled into the refundable child tax credit. In 1985 Canadian mothers will receive an average of $31.27 per child per month.* If family allowance payments had remained pegged to the cost of living throughout the period since 1974 they would have been over 70 per cent higher in 1985, or about $53.60 per child per month.

53. Similar cutbacks have occurred with respect to unemployment insurance, which have seriously affected the ability of this program to direct benefits to those in need and to protect recipients against having their incomes fall below the poverty line. Between 1972 and 1981 unemployment insurance benefits paid per person year of unemployment declined by 39 per cent. One-third of this decline was due to reductions in benefit levels and two-thirds was the result of changes in criteria for eligibility. The most significant change that affected the ability of the unemployment insurance program to deliver funds to those members of the work force most in need was the reduction in maximum benefit levels for those with dependents from 75 per cent of maximum insurable earnings to 66-2/3rds per cent in 1976 (Bill C-69), and then to 60 per cent in 1979.

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*Except in Quebec, where amounts are varied by number of children.

RECOMMENDATIONS

The Federal Government Consultation Paper

54. The federal government consultation paper, Child and Elderly Benefits, endorses the principle of universality with respect to the existing family allowance and old age pension programs, the continued application of income-testing with respect to the receipt of the refundable child tax credit and the guaranteed income supplement for the elderly, and endorses the principle that any savings stemming from changes in the elderly and child benefit systems should not be applied to the reduction of the federal government deficit. The consultation paper sets an historical precedent in including discussion of tax benefits associated with the two systems. It proposes that the entire elderly benefit system remain intact for the present.

55. Two options are proposed for the child benefit system. However, we certainly do not think that the two options proposed exhaust the possibilities for change, even in the immediate future. Other options are therefore suggested for consideration

56. Option 'A' involves the elimination of the child tax exemption, generally acknowledged to be the most regressive feature of the current child benefit system in the sense that benefits vary inversely with income, an increase in the Child Tax Credit from the current $367 per child to $595 per child and a reduction in the income threshold above which the credit begins to be reduced from $26,330 to $20,500. Option 'B', which the federal minister of National Health and Welfare seems to prefer,

would see the child tax exemption reduced to $240 from $710 per child, family allowance payments reduced from $31.27 per child to $20 per child per month, the child tax credit increased to $610 per child and the threshold at which the level of the credit begins to be reduced to $25,000 from $26,330. Option 'A' would result in net saving to the federal government of $80 million and in $330 million in increased revenue for the provincial governments. Option 'B' would result in additional revenue to the federal government of $130 to $150 million.

57. The federal government appears to prefer option 'B'. Option 'A', it is argued, results in too great a reduction in net benefits for middle income families and in $330 million additional revenue for the provinces that is not available for redistribution inside the social affairs spending envelope. There are so many possible options and variations in these options available, however, that neither of these liabilities should be seen as immutable.

58. Of the two options, 'A' has the most to be said for it, mostly because it would result in the total elimination of the child tax exemption. In arguing for the total elimination of the child tax exemption it is instructive that from 1942 to 1944, a period of stress in which the federal government had to assure that more resources were available for low and moderate income families, the child tax exemption, a feature of the Canadian income tax system since 1918, was temporarily suspended and

replaced by a child tax credit. We feel that the total elimination of the child tax exemption would also lead more naturally to a more thorough examination at a future date of other tax expenditure features of both the personal and corporate income tax systems.

59. While it is true that the additional revenues flowing to provincial governments are not available to the federal government, there are so many points at which the federal and provincial governments relate to one another fiscally, that this can be addressed. We note that cash transfers to the provinces by the federal government are in constant flux and that the funding arrangements for Established Programs Financing can be renegotiated in 1986.

60. Regarding the impact of Option 'A' on middle income families, this arises almost entirely from the fact that the threshold level at which the full child tax credit is paid would be lowered to $20,000. Such an extensive reduction is not necessary.

61. We would also urge that alternatives to increasing the child tax credit also be considered. The child tax credit, certainly as it currently exists, has at least two negative attributes that need to be rectified. First, it is paid only once a year. As the amount increases, it becomes increasingly important to address this liabililty. Secondly, a large part of the child tax credit designated for low income families is cap-

tured by tax discounters. We urge that this practice be legislatively stopped.

62. This Council supports program changes which would see the total elimination of the child tax exemption, as proposed in the federal government's Option 'A', but the rechanneling of the resulting increased revenues into an increase in family allowance payments of 50 per cent more than currently, or about $45.00 per child per month, after which payments would continue to be indexed to the cost of living. We also recommend that the threshold income level at which the full child tax credit is paid be re-indexed tc the cost of living. The de-indexation of this threshold is an excellent example of the gradual erosion that often attends selective, income-tested programs.

Other Recommendations

63. Implementation of any of the above options would amount to no more than minor tinkering with the existing income security system. Much more needs to be done to provide a sufficient income floor for Canadian families. The elimination of poverty amongst those least able to provide for themselves -- mostly children and the elderly -- should be the first priority in further changes in the income security system.

64. Regarding poverty amongst elderly individuals and families, this Council made numerous proposals to the federal Parlia-

mentary Task Force on Pension Reform in 1983 and these are repeated below:

a. That maximum benefits under the Canada/Quebec Pension Plan be increased to a level equivalent to 50 per cent of the average industrial wage.

b. That benefits under the Canada/Quebec Pension Plan be placed on a sliding scale such that no individual would earn pension credits at less than half the maximum rate.

c. That the Old Age Supplement (OAS) be increased from its present level of approximately 14 per cent of average industrial wages to a level of 25 per cent of average industrial wages.

d. That the Canada/Quebec Pension Plan remain a universal, compulsory program.

e. That the above recommendations be implemented gradually over a period of 10 years.

f. That the guaranteed income for a single elderly person be set immediately at 70 per cent of that of a couple.

g. That the first priority for investing any accumulated Canada/Quebec Pension funds be national investment priorities, especially social housing.

h. That ways and means of providing inflation protection to Canadian pension plans be studied further with a view to not requiring employees to absorb all of the risk of inflation protection.

i. That the suggestions of the federal green paper regarding survivor's benefits be adopted.

j. That the suggestions of the federal green paper for mandatory splitting by spouses of earned pension credits be adopted.

k. That special income tax provisions for the elderly be eliminated as pensions are improved as per recommendations 'a' through 'f'.

Implementation of recommendations 'c' and 'i' would almost totally eliminate the need for the federal Guaranteed Income Supplement and the means-testing that recipients must endure.

65. Regarding child poverty, and especially the increase in child poverty that accompanied the 1982 recession, measures such as the reintroduction of dependents' allowances to increase unemployment insurance benefits for famnilies with children should be seriously considered. This Council intends to continue to develop ways and means of addressing the serious problems encountered by children whose parents become unemployed and/or work for very low wages.